Precarious Housing in Europe. Pushing for innovation in higher education.
Co-funded by the Erasmus+ Programme of the European Union

Financialization of the Dutch social rented sector

Gideon Bolt

The Dutch social housing context

The proportion of social rented dwellings in the Netherlands is much higher than in most other European countries. Most social rented dwellings are owned by housing associations. In 2018, the 312 Dutch housing associations owned almost 2.3 million dwellings, which amounts to 29% of the total housing stock. Housing associations are hybrid institutions, as they are private organizations, but are dedicated to building and managing social housing. The heyday of the social housing sector was between 1945 and 1970 when more than two thirds of all new construction was in this sector. Housing associations were strictly regulated by central and local governments, who made decisions about rent levels and building requirements (central government), as well as architecture, supervision of construction and housing allocation (local government) (Dieleman, 1999). Since the 1990s, ties between government and housing associations have been loosening. The government scaled down construction subsidies, promoted homeownership (partly by stimulating selling off social housing) and 'liberalized' part of the rental sector, which meant that the more expensive parts of the rental sector were no longer subject to rent control by the central government.

The greater independence of housing associations enabled them to carry out a more market-oriented rental policy and many also started developing owner-occupied housing and commercial real estate. For the development of new social housing, associations borrowed at favourable rates from two state banks enabled by Waarborgfonds Sociale Woningbouw (WSW – the AAA-rated social housing guarantee fund) which guarantees loans. In 2007 WSW, a non-state entity governed by the housing associations themselves, made a crucial change in their policy. The guaranteeing of loans was no longer connected to specific social housing projects, which meant that housing associations could use the guarantee for all kind of activities, including commercial real estate projects, land speculation and even **derivatives** speculation (Aalbers et al., 2017). The derivatives speculation led to a devastating blow to the largest housing association in the Netherlands.

The Vestia debacle

The social housing sector has experienced a wave of mergers, which resulted in a decline of the number of housing associations from 764 in 1997 (Van den Berge et al., 2013) to 312 in 2018 (BZK, 2019). Vestia became the largest housing association in the Netherlands through a series of mergers, managing almost 90,000 units in 2011.

In the 2000s, Vestia started to invest in derivatives. As Aalbers et al. (2017) explain housing associations did not move into the world of finance due to financial constraints (like other semi-public institutions did), but because they sought to capitalize on increasing real estate values in the period preceding the global financial crisis (mid 1990s–2008). This real estate value was used as collateral for new loans and investments, including derivative contracts. By 2011, Vestia had more than 400 derivatives contracts with 13 banks and the total derivatives portfolio was 23 billion euros. When interest rates started falling rapidly in the summer of 2011 the whole scheme fell apart. Apart from banks selling very risky derivatives products not suitable

for the social housing sector, the treasurer and the CEO of the company were also making wrong, even fraudulent decisions.

To save Vestia from bankruptcy, all real estate of Vestia was transferred to WSW, bypassing the banks who could have made a lot of profit from a transfer of Vestia's real estate to them (in the case of a bankruptcy) on top of the estimated 600 million euros made from derivatives contracts (Aalbers et al., 2017). After tough negotiations, all banks (except Credit Suisse) agreed to a solution whereby the remaining negative market value of all derivatives (valued at 1.9 billion euros) was converted into regular loans. The total costs of the derivatives debacle are estimated to be 2.7 billion. To save Vestia from a total collapse (which would have led to an estimated cost of 4 billion euros) other housing associations were forced to step in and to cover a substantial part (675 million) of the costs (König, 2018).

The price for social renters

In 2014 Vestia started a recovery program aiming to sell one third of the housing stock (30,000 units) and to reduce the number of employees by a third. As the largest landlord in the Rotterdam–The Hague area, Vestia has a big impact on the regional housing market. Some of the dwellings are sold to other housing associations, but others are sold to individual households and real estate investors (such as 5,500 dwellings to Patrizia from Germany), which leads to the reduction of available social rented dwellings. By 2019 Vestia had sold about 24 thousand dwellings (1.66 billion euros) and feels forced to sell even more units (15,000) in the next years.

Most municipalities in the Rotterdam–The Hague area do not want a reduction of the social housing stock and require the dwellings to be sold to other housing associations, but their investment capacity has been reduced due to the fact they had to cover part of the costs of saving Vestia.

The consequences for the renters of Vestia is that the price-quality ratio is moving in the wrong direction. Vestia has made cuts in its maintenance budget and, unlike other housing associations, has increased the rent level with the maximum permitted percentage in seven successive years. In the 'liberalized part' of the housing stock (rent above 730 €) there is no rent control and residents cannot qualify for housing allowances. About a third of Vestia's housing stock is not social anymore, which has led to a further reduction of affordable dwellings in the region.